Testimony of Mark Pontti, Public Affairs Manager
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To Senate Energy & Technology Committee
May 5, 2016

Chairman Nofs and members of the Committee, thank you for the opportunity to speak to you today about this important legislation affecting Michigan's energy policy. First, let me tell you a bit about Verso Corporation.

Verso owns and operates two paper mills in Michigan's Upper Peninsula: one in Escanaba and one in Quinnesec, near Iron Mountain. At these two mills, Verso employs approximately 1283 full-time hourly and salaried workers with a payroll of around $100 million in 2015. We are the largest manufacturing employer in the entire Upper Peninsula (UP), and account for a significant proportion of local jobs, total wages and the total tax base in the counties where we operate.

We also have major indirect impacts on the UP economy. First, we purchase most of the mills' goods and services from local and regional suppliers, including loggers, truckers, rail carriers, etc. By supporting wages and benefits for numerous small and large businesses, our mills indirectly support thousands of jobs across the UP. Second, our employees and their families support the local tax base and the economy in and around the communities where we operate. We estimate that our annual economic impact to these communities is more than $500 million.

Energy is a major operational cost for us, and is one important determinant in which mills remain competitive in the global marketplace. Verso has mills in five states, and these mills compete against each other, as well as against our competitors' mills. Within Verso, our Michigan mills compete against their sister mills in two ways. First, limited capital improvement dollars, critical to the continued operation of paper mills, are more likely to be made available to mills with the lowest manufacturing cost. Second, with an oversupplied paper market where machine downtime is required, the mills with the lowest manufacturing cost are more likely to escape those market-related curtailments and the associated loss of jobs. This applies to both temporary and permanent shutdowns.

Our Michigan mills are in the service territories of two different regulated utilities: the Wisconsin Electric Power Company and the Upper Peninsula Power Company (UPPCO). We are an electric choice customer on Wisconsin Electric's system, and we are a tariff customer on UPPCO's system. We work to control our electric energy costs by operating co-generation systems at our two mills. By balancing our own generation against the load on the system, we help not only to reduce mill costs but also to shift load off the system when demand is highest and prices increase, thus providing a benefit to the system and to other users on it by reducing overall electric costs.

For Verso's operations in Michigan to remain successful in the competitive global marketplace, it is critical that we continue to have access to market prices for power through the retail open access program, that options for self-generation remain open, and that new additions to a utility's generation portfolio be added through a process that is open, competitive and ensures reasonable rates for all users.

We are concerned that SB 437 (S-2), as currently drafted, does not meet these goals. We have three major areas of concern.

1) We believe that two aspects of the **Revenue Decoupling** provisions create an unfavorable rate climate for business customers:

a) Using projected sales volume as the basis for comparison in determining when the utilities are able to recover under this mechanism is problematic. We recently saw the impact of using projected sales volume firsthand, when the Presque Isle plant's system support resource (SSR) payments essentially doubled, in part, because Wisconsin Electric re-calculated them using projected rather than historical data. At FERC, we continue to challenge the use of those projected numbers, seeking a return to more reasonable revenue goals. Using projected numbers to set the revenue goal for decoupling provides an economic incentive to utilities to estimate high in order to maximize their recovery. The use of projected test years, without any type of safety net or true-up to actual data is arguably detrimental to customers.

b) We are also concerned that the decoupling provision in Section 6a(13) of the bill functions like a general revenue tracker. We oppose such trackers because they enable utilities to increase rates while avoiding the scrutiny required by a general rate case, thus reducing openness, rate transparency and regulatory oversight. This has been a real concern of industrial customers in other states, such as Indiana, that have been using trackers.

2. We support the Integrated Resource Plan (IRP) in principle. However, we are concerned that the proposed process is not accessible enough to third-party energy providers, including businesses like Verso, which could provide capacity and energy to the utility from biomass generation located on site at our mills. Specifically:

a) The bill requires only that the utility's request for proposal (RFP) results "inform its IRP" without specifically authorizing the Commission to review and require adoption of other options. This is a disincentive to the participation of third-party resource providers in the process, as it appears to give utility proposals the upper hand.

b) The provision in Section 6t(13)(b) that mandates that the product of the competitive bidding process for new generation be owned by the utility imposes unnecessary rigidity and removes incentives for third-party resource providers, as well as the option for creative ownership and operating arrangements with the utility.

c) The RFP process does not recognize best practices developed and used in other states where Verso operates, such as Minnesota and Wisconsin. For example, the Michigan process does not include PSC oversight of the RFP provisions, independent evaluation of RFP submissions, third-party oversight of the competitive bidding process, and the like. These are essential to ensuring that the process is fair to third parties with alternative proposals.

3) Finally, the customer choice provisions concern us.

a) First, surcharges implemented under PA 41 of 2000 required that existing choice customers pay for the ability to access the market for energy. We have continued to pay even after the market was restricted to only 10% of each utility's load in 2008. Therefore, choice customers have already paid for their share and more of existing utility generation capacity. Additional capacity charges are unfair and overpay the utilities.

b) Second, we believe that any method recognized by MISO as satisfying its Local Clearing Requirement (LCR) should also be acceptable to the state. We therefore oppose those requirements in the bill that burden alternative suppliers and their customers with reliability requirements that go beyond what MISO requires or that limit access to MISO's markets to satisfy such requirements.

c) Finally, we believe that strong controls on market manipulation must be included, including a requirement that all excess LCR capacity be offered for sale on competitive terms or offered into the market.

Michigan's need for new capacity within its borders is a driving force behind this legislation. To cost-effectively meet this need with reliable energy, we need public policies that provide incentives to businesses like Verso – businesses which provide capacity for their own needs and support for the system with which they are interconnected. As previously mentioned, Verso's current generation facilities help to remove load at peak times, reducing costs for the system and other customers.

Incenting Michigan's businesses to work with their utilities to create generation sources locally can help to address reliability concerns and would encourage a more robust, less centralized system. We have seen firsthand in the UP what can happen when the utility's system becomes so centralized that a single power plant becomes essential to reliability. This model promotes neither reliability nor cost efficiency. Our state will be better served by a model that provides incentives for increased investment in Michigan generation by Michigan businesses and by other independent power producers to diversify Michigan's generation portfolio.

Thank you for your time and attention today.